

BROWN CITY COMMUNITY SCHOOLS
BROWN CITY, MICHIGAN

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional information)
June 30, 2007

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September 7, 2007

INDEPENDENT AUDITOR'S REPORT

Board of Education
Brown City Community Schools
Brown City, Michigan 48416

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Brown City Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2007, on our consideration of Brown City Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through x and page 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Board of Education
Brown City Community Schools
September 7, 2007

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brown City Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Brown City Community Schools has implemented Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. Our discussion and analysis of Brown City Community Schools' financial performance, a GASB 34 requirement, provides an overview of the School District's financial activities for the fiscal year ended June 30, 2007.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. .

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The District's *net assets* – the difference between assets and liabilities, as reported in the Statement of Net Assets, is one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets, as reported in the Statement of Activities, is one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to its students, not to generate profits as commercial entities do. Many other non-financial factors, such as the quality of the education provided and the safety of the schools, must also be considered when assessing the *overall health* of the School District.

The School District's net assets totaled \$1,669,832 and \$1,464,091 at June 30, 2007 and 2006, respectfully. Of these amounts, \$696,430 and \$658,543 were restricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use those net assets for day-to-day operations. The following is a summary of the District's net assets at June 30, 2007 and 2006:

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Assets	2007	2006
Current assets	\$3,921,200	\$4,322,670
Capital assets net of depreciation	<u>13,108,611</u>	<u>13,489,830</u>
Total assets	<u>\$17,029,811</u>	<u>\$17,812,500</u>
Liabilities		
Current liabilities	\$1,943,828	\$2,575,528
Long-term liabilities	<u>13,416,151</u>	<u>13,772,881</u>
Total liabilities	15,359,979	16,348,409
Net Assets		
Invested in capital assets, net of related debt	(452,702)	(467,037)
Restricted for debt service	696,430	658,543
Unrestricted	<u>1,426,104</u>	<u>1,272,585</u>
Total net assets	<u>1,669,832</u>	<u>1,464,091</u>
Total liabilities and net assets	<u>\$17,029,811</u>	<u>\$17,812,500</u>

The \$1,426,104 in unrestricted net assets of governmental activities represents school district funds that have not been committed contractually or for debt obligations and are available for future use.

Total net assets increased \$205,741 in 2006-07. The major components of the increase in net fixed assets are as follows:

- Capital acquisitions

Capital outlay for the year ended June 30, 2007 totaled \$77,076

- Depreciation expense

The provisions of GASB 34 require districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principals,

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2007 the net increase in accumulated depreciation was \$ 454,298.

- Debt repayment

Repayment of debt decreases the District's long-term principal obligations and, as a result, the net assets of the district increase. The District repaid \$ 431,120 of long-term debt in the current fiscal year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-wide results of operations for the year ended June 30, 2007 is as follows:

	2007	2006
General revenue		
Property taxes levied for general operations	\$ 431,351	\$ 420,762
State of Michigan aid, unrestricted	7,936,026	7,907,275
Property Taxes levied for debt service	786,916	746,144
Other – federal, state and local	<u>204,363</u>	<u>159,963</u>
 Total general revenue	 9,358,656	 9,234,144
Program revenue		
Charges for services – local	372,276	361,474
Operating grants – federal and state	<u>605,768</u>	<u>642,123</u>
 Total revenues	 10,336,700	 10,237,741
Expenses		
Instruction	4,974,502	4,815,995
Support services	3,339,973	3,354,760
Community services	47,067	39,493
Food services	467,504	474,753
Fees		
Athletics	221,423	205,948
Amortization	31,570	14,828
Interest on long-term debt	594,622	655,869
Depreciation (unallocated)	<u>454,298</u>	<u>488,050</u>

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Total expenses	10,130,959	10,049,696
Increase in net assets	205,741	188,045
Net assets – July 1	<u>1,464,091</u>	<u>1,276,046</u>
Net assets – June 30	1,669,832	1,464,091

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

The financial condition of the governmental funds remains steady as indicated by the combined fund balance of \$ 2,679,334 in 2006-07, compared to \$2,370,513 in 2005-06.

In the General Fund, our principal operating fund, the fund balance increased \$ 227,746. Our Special Revenue Funds experienced a good year, showing a net \$15,533 increase in fund balance.

The Debt Service Fund balance increased its fund balance by \$65,542. During the 2006-07 fiscal year, the Debt Service Fund millage rate remained the same at 5.9980 mills. Millage rates are determined annually to ensure the School District accumulates sufficient resources to pay annual bond issue-related debt service. The Debt Service Fund balances are reserved since they can only be used to pay debt service obligations. During the 2006-07 fiscal year, the Board of Education, in an effort to save the taxpayers of the school district, refunded \$3,905,000 of the original 2001bonds for an additional reduction in annual debt service payments.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments, actual State Aid per pupil and staffing changes are known. Currently, the most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2007, the School District amended the budget of this major governmental fund two times.

General Fund

In the general fund, the actual revenue was \$8.968 million. This is above the original budget estimate of \$ 8.809 million and slightly below final amended budgeted amount of \$8.990 million, a variance of 0.0025%.

The actual expenditures of the general fund were \$8.353 million. This is below the original budget estimate of \$8.863 million and the final amended budgeted amount of \$8.380 million. The variances between the actual General Fund expenditures and the original and final expenditure budgets include the following:

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

- A reduction in discretionary spending resulting from the spending reductions implemented during the year when there was a concern that the State of Michigan would give take a proration in the per pupil funding near the end of the school year. Conservation of utilities was another area where the expenditures were decreased over the school year.

A schedule of statements showing the School District's original and final budget amounts compared with amounts actually paid and received.

General Fund revenues totaled \$ 8,967,863 million and total expenditures and other financing sources were \$ 8,740,117 million for the year. The fund balance was \$2,218,702 million dollars at June 30, 2007.

GOVERNMENTAL FUND EXPENDITURES

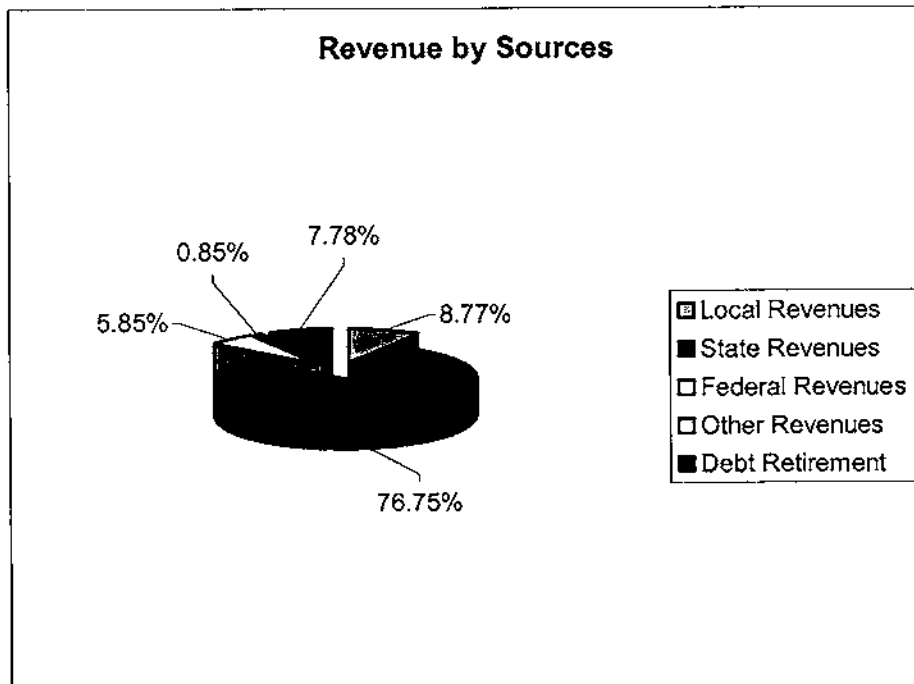
The following chart illustrates that general fund comprises 85% of all the expenditures within the governmental funds of the School District. As of June 30, 2007 expenditures totaled \$ 9.809 million for all District programs. The ending fund balance for all funds was equal to \$2,679,334

	June 30, 2007	% of TOTAL
General Fund	\$ 8,353,757	85.00%
Special Revenue Fund	688,927	7.00%
Debt Retirement Fund	766,669	8.00%
Total	\$ 9,809,353	100.00%

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TOTAL REVENUES

Revenues for all governmental funds totaled \$10.341 million. The following graph illustrates the District revenues by source as a percentage of total revenue:



Unrestricted State Aid

The district is predominately funded by State Aid. The State of Michigan increased the per pupil funding for the 2006-07 school year to \$7,085.00, a \$210.00 per pupil increase over the 2005-06 allocation of \$6,875.00. State Aid membership was 1,124 and 1,150 in 2006-07 and 2005-06, respectively.

Property Taxes

The District was only able to levy 17.1075 mills, of the originally voted 18.0 mills, of property taxes on all Non-Homestead property located within the district for General Fund operations during the 2006-07 school year. This millage rate decreased from 17.2473 mills which was what the district levied in the 2005-06 school year. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

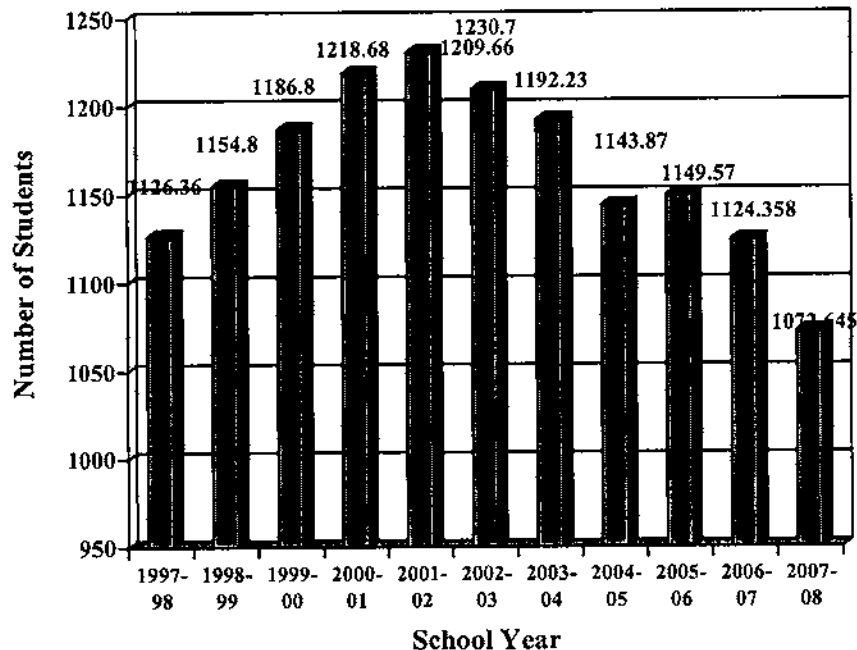
is approximately 50% of market value. The 2006-07 Non-Homestead property tax levy totaled approximately \$ 446,371 and collections were \$ 431,351.

The District levies 5.9980 mills of property taxes on all classes of property located within the district for bonded debt retirement. This levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The total amount levied for debt retirement in the 2006-07 year was \$ 786,916.

ENROLLMENT

The enrollment of Brown City Community Schools totaled 1,124 students in 2006-07. This is a decrease in enrollment of 25 students from the 2005-06 year. The School District is located in Sanilac, Lapeer and St. Clair Counties and it considered a rural community. The School District's enrollment includes students K-12 and Alternative High School students, located in learning centers in Brown City, Croswell and the Sanilac County Career Center.

Enrollment over the last ten years, plus a 2007-08 projection is illustrated as follows:



BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Enrollment is important to the financial health of the School District because state funding is based on a per-pupil formula. For the fiscal year ended June 30, 2007, the gross per-pupil allowance was \$7,085.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007, the School District had \$17.86 million invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$ 4.7 million dollars has been depreciated. Net book value totals \$13.1 million. The district's buildings range in years of construction from 1954 to 2001. The majority of the buildings were either constructed or remodeled during the 2001 Bond Issue. The district is committed to the timely repairs and maintenance of its facilities. Computer purchases are under the District's capitalization threshold of \$5,000 and are expensed accordingly.

	Governmental Activities
Land and Improvements	\$ 877,948
Buildings and Additions	14,586,307
Machinery and Equipment	1,486,128
Vehicles & Buses	914,485
 Total	 <u>\$ 17,865,371</u>

Debt

OUTSTANDING DEBT AT YEAR-END

At June 30, 2007 the School District had \$14.84 million in bonds outstanding as compared to \$ 14.48 million at the end of the previous year. The bonds outstanding consisted of the following:

Limited Tax General Obligation Bond	\$ 1,010,000
Durant Issue	\$ 35,845
Building and Site Bonds	<u>\$ 13,800,000</u>
 Total	 <u>14,845,845</u>

**BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

It needs to be noted the Durant Issue is a legal obligation of the School District, but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payment. If the legislature fails to appropriate for these bonds, the School District is under no obligation for payment. The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating.

State statutes limit the amount of debt schools can issue. The School District's outstanding voted bond debt of \$13.8 million is under the statutorily imposed limits.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The School District's revenue is heavily dependent on enrollment, state funding, and thus, the health of the State of Michigan's School Aid Fund. The State periodically holds revenue consensus conferences to estimate its revenues. Based on the results of these conferences, the State determines whether they have sufficient funds to meet the per student allocation. When the 2007-08 budget was formulated, the State had not indicated what they would set the per pupil allocation at for the school year. The 2007-08 budget was based on \$50.00 less than the 2006-07 school year per pupil allocation of \$7,085.00.

The State's current blending formula (25% February 2007 count and 75% September 2007 count) is the same formula that was used in the 2006-07 school year. The district's blended count for the 2007-08 school year is projected to be down 52 from the 2006-07 school year.

In addition, the district has unsettled labor agreements with the several non-union employees.

The 2006-07 budget, that was originally adopted, included an excess of expenditures over revenue of \$453,157, which would have reduced the District's fund equity. During the school year the District reduced elective spending as much as possible, to help reduce that projected excess in expenditures over revenue. Even if the state revenues improve, future budget reductions may be required to handle the increasing costs, such as health insurance, state mandated retirement contributions and the ever increasing costs of fuel and the utilities.

BROWN CITY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of Brown City Community Schools. If you should desire additional detailed financial program audits, they can be obtained by contacting the following person:

Janet E. Stimson, Business Manager
Brown City Community Schools
4349 Second St. P.O. Box 160, Brown City, MI 48416-0160
Telephone – 810-346-2781 Fax – 810-346-3762
Email – jstimson@bc.k12.mi.us

BASIC FINANCIAL STATEMENTS

BROWN CITY COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2007

	GOVERNMENTAL ACTIVITIES
ASSETS	
CURRENT ASSETS:	
Cash	\$ 2,082,166
Investments	326,462
Accounts receivable	36,278
Taxes receivable	35,767
Property taxes receivable	9,484
Due from Agency funds	
Due from other governmental units	1,397,494
Inventory	5,649
Prepaid expenses	27,900
TOTAL CURRENT ASSETS	3,921,200
NONCURRENT ASSETS:	
Capital assets	17,865,371
Less accumulated depreciation	(4,756,760)
TOTAL NONCURRENT ASSETS	13,108,611
TOTAL ASSETS	\$ 17,029,811
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 54,142
Notes payable	750,000
Accrued interest	103,312
Accrued payroll taxes	127,896
Salaries payable	270,494
Current portion of long term debt	490,000
Current portion of compensated absences/buyouts	147,984
TOTAL CURRENT LIABILITIES	1,943,828
NONCURRENT LIABILITIES:	
Noncurrent portion of long term debt	13,071,313
Noncurrent portion of compensated absences/buyouts	344,838
TOTAL NONCURRENT LIABILITIES	13,416,151
NET ASSETS:	
Invested in capital assets, net of related debt	(452,702)
Restricted for debt service	696,430
Unrestricted	1,426,104
TOTAL NET ASSETS	1,669,832
TOTAL LIABILITIES AND NET ASSETS	\$ 17,029,811

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
June 30, 2007

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 4,974,502	\$ 70,531	\$ 259,134	\$ (4,644,837)
Support services	3,339,973		111,057	(3,228,916)
Community services	47,067			(47,067)
Food services	467,504	227,408	235,577	(4,519)
Athletics	221,423	74,337		(147,086)
Amortization	31,570			(31,570)
Interest on long-term debt	594,622		-	(594,622)
Unallocated depreciation	454,298			(454,298)
Total governmental activities	<u>\$ 10,130,959</u>	<u>\$ 372,276</u>	<u>\$ 605,768</u>	<u>(9,152,915)</u>
General revenues:				
Property taxes, levied for general purposes				431,351
Property taxes, levied for debt service				786,916
State of Michigan school aid unrestricted				7,936,026
Investment revenue				104,200
Transfers from other districts				32,482
Sale of school property				-
Miscellaneous				67,681
Total general revenue				<u>9,358,656</u>
Change in net assets				205,741
Net assets, beginning of year				1,464,091
Net assets, end of year				<u>\$ 1,669,832</u>

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>GENERAL FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 1,640,357	\$ 441,809	\$ 2,082,166
Investments	326,462		326,462
Accounts receivable	36,278	-	36,278
Taxes receivable	26,286	9,481	35,767
Due from other governmental units	1,393,801	3,693	1,397,494
Inventory		5,649	5,649
Prepaid expenses	27,900		27,900
TOTAL ASSETS	<u>\$ 3,451,084</u>	<u>\$ 460,632</u>	<u>\$ 3,911,716</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES:			
Accounts payable	\$ 54,142	-	\$ 54,142
Notes payable	750,000		750,000
Interest payable	29,850		29,850
Benefits payable	127,896		127,896
Salaries payable	270,494	-	270,494
Deferred revenue	-		-
TOTAL LIABILITIES	<u>1,232,382</u>	<u>-</u>	<u>1,232,382</u>
FUND BALANCE:			
Unreserved			
Designated for compensated absences/buyouts	492,822		492,822
Designated for insurance	27,900		27,900
Designated for building improvements	10,000		10,000
Undesignated	1,361,518	\$ 90,664	1,452,182
Reserved for debt service		369,968	369,968
Reserved for QZAB	326,462		326,462
Reserved for capital projects		-	-
TOTAL FUND BALANCE	<u>2,218,702</u>	<u>460,632</u>	<u>2,679,334</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 3,451,084</u>	<u>\$ 460,632</u>	<u>\$ 3,911,716</u>

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2007

Total fund balances--governmental funds **\$ 2,679,334**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is:	17,865,371
Accumulated depreciation is:	(4,756,760)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable:	(14,225,845)
Compensated absences/buyouts	(492,822)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(73,462)
Deferred bond premium	(42,460)
Deferred amount on bond refunding	579,657
Deferred issuance costs for bond refunding	129,091
Deferred bond discount	44,642
Amortization bond premium	2,711
Amortization amount on bond refunding	(38,918)
Amortization deferred issuance costs	(7,507)
Amortization bond discount	(2,684)

Balance of taxes receivable at 6/30/07 less allowance for doubtful accounts, expected to be collected after September 1, 2007

9,484

Net Assets of Governmental Activities

\$ 1,669,832

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2007

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Local sources	\$ 604,444	\$ 1,106,080	\$ 1,710,524
State sources	7,904,888	31,138	7,936,026
Federal sources	370,191	235,577	605,768
Other transactions:			
Transfers from other districts	32,482		32,482
Sale of school property	-		-
Refund of prior years expenditures	9,133		9,133
Insurance reimbursement	25,000		25,000
Miscellaneous	21,725		21,725
TOTAL REVENUES	8,967,863	1,372,795	10,340,658
EXPENDITURES:			
Instruction	4,939,825		4,939,825
Supporting services	3,366,865		3,366,865
Community services	47,067		47,067
School activities		688,927	688,927
Debt service:			
Principal retirement		205,000	205,000
Interest and fiscal charges		561,669	561,669
TOTAL EXPENDITURES	8,353,757	1,455,596	9,809,353
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	614,106	(82,801)	531,305
OTHER FINANCING SOURCES (USES):			
Proceeds from bond refunding		3,905,000	3,905,000
Bond Premium		12,087	12,087
Payment to bond escrow agent		(3,700,000)	(3,700,000)
Payments for premiums and discounts		(16,792)	(16,792)
Deferred amount		(117,658)	(117,658)
Bond Issuance costs		(54,761)	(54,761)
Payment on loans	(250,000)		(250,000)
Site services	(360)		(360)
Payments to other schools	-		-
Transfers from other funds	5,000	141,000	146,000
Transfers to other funds	(141,000)	(5,000)	(146,000)
TOTAL OTHER FINANCING SOURCES (USES)	(386,360)	163,876	(222,484)
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	227,746	81,075	308,821
FUND BALANCE - BEGINNING OF YEAR	1,990,956	379,557	2,370,513
FUND BALANCE - END OF YEAR	\$ 2,218,702	\$ 460,632	\$ 2,679,334

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2007

Total net change in fund balances--governmental funds **\$ 308,821**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(454,298)
Capital outlay	77,076
Net book value of assets traded	(3,997)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	82,262
Accrued interest payable at the end of the year	(73,462)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Principal payments	4,155,000
Proceeds of bonds	(3,905,000)
Premium on bonds	(12,087)
Discount on bond	16,792
Deferred issuance costs	54,761
Deferred amount on bond refunding	117,658
Amortization of premium on bond	1,867
Amortization of discount on bond	(1,910)
Amortization of deferred issuance costs	(5,442)
Amortization of deferred amount on bond refunding	(26,085)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(13,442)
Accrued revenue at the end of the year	9,484

Compensated absences/buyouts are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	370,565
Accrued absences/buyouts at the end of the year	(492,822)

Change in net assets of governmental activities **\$ 205,741**

BROWN CITY COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 86,914
<u>TOTAL ASSETS</u>	<u><u>\$ 86,914</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES:	
Due to other funds	\$ 4,471
Due to student organizations	<u>82,443</u>
TOTAL LIABILITIES	<u>86,914</u>
 FUND BALANCE:	
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u><u>\$ 86,914</u></u>

The accompanying notes are an integral part of the financial statements.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Brown City Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described in Note 1. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Brown City Community Schools (the "District") is governed by the Brown City Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued):

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

OTHER NON-MAJOR FUNDS

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The 2001/2005/2006 *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *debt service fund* - Durant accounts for the resources accumulated and payments made for principal and interest on long-term limited obligation debt as a result of the Durant settlement.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (CONTINUED):

Modified Accrual Method (Continued):

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007 the foundation allowance was based on the pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2006 - August, 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

For the year ended June 30, 2007, approximately \$124,250 of non-cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

ASSETS, LIABILITIES AND EQUITY (CONTINUED):

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year.

The actual due date is September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	17.1075
Debt Service Funds - Homestead and non-homestead	5.998

4. Inventories and Prepaid Items.

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue fund consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

ASSETS, LIABILITIES AND EQUITY (Continued):

6. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

7. Deferred Revenues.

The unexpended balance of various federal and/or state categorical grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance are also deferred.

8. Compensated Absences.

The District's policies generally provide for granting vacation and sick leave with pay. It is the policy of the District that upon the death or retirement or layoff of a teacher from the district, the Board shall pay to the teacher with a minimum of seven years of service, or his/her estate, with at least thirty sick days accumulated shall receive \$30 for each unused accumulated sick day. The maximum days accumulated will be equal to the number of teaching days per school year.

9. Unemployment Insurance.

The District reimburses the State of Michigan Bureau of Worker's & Unemployment Compensation (BW&UC) for the actual amount of unemployment benefits disbursed by the BW&UC on behalf of the District. Billings received for amounts paid by the BW&UC through June 30 are accrued if material.

10. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

ASSETS, LIABILITIES AND EQUITY (Continued):

11. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

12. Use of Estimates.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP Basis) - general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:

Cash and cash equivalents are held separately in the name of the district by each of the district's funds.

As of June 30, 2007, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
Guaranteed Investment Contract (GIC)	\$ 326,462	0.7047	A-1+	100.0%
Total fair value	<u>\$ 326,462</u>			100.0%
Portfolio weighted average maturity		<u>0.7047</u>		

1 day maturity equals 0.0027, one year equals 1.00

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$2,351,772 of the District's bank balance of \$2,451,772 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the Note Payable Disclosed in Note 4 (QZAB Bonds).

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK (CONTINUED):

The Investment Agreement, dated as of March 14, 2002, by and among The Bank of New York Trust Company, as the Depository on behalf of both the participating Michigan School District and the Michigan Municipal Bond Authority, and Wachovia Bank, as Provider.

The net proceeds from the sale of the School Improvement Bonds were loaned by the Authority to Michigan School Districts. Such Loans are to be repaid with annual set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 1.5% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Wachovia Bank, as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$86,914	\$ 2,169,080
Investments	<u>326,462</u>
	<u><u>\$ 2,495,542</u></u>

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 2,082,166
Fiduciary Funds	86,914
Investments - District wide	<u>326,462</u>
	<u><u>\$ 2,495,542</u></u>

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 4 - LONG-TERM DEBT:

On December 6, 2005, the District issued refunding bonds for \$8,465,000 in general obligation bonds with an average interest rate of 3.9% to advance refund \$7,890,000 outstanding 2001 registered bonds with an average interest rate of 5.25%. As a result, the 2001 term bonds are considered defeased and the liability for those bonds has been removed from the general long-term debt group.

The District refunded a portion of the 2001 term bonds to reduce its total debt service payments over the next twenty-one years by \$607,651 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$393,833.

On September 6, 2006, the District issued refunding bonds for \$3,905,000 in general obligation bonds with an average interest rate of 4.2% to advance refund of \$3,700,000 outstanding 2001 registered bonds with an average interest rate of 5.25%.

The District refunded an additional portion of the 2001 term bonds to reduce its total debt service payments over the next twenty-one years by \$210,198 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$137,250.

The District issues general obligation bonds to provide funds for the acquisition, construction, and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2007.

	Accumulated Compensated Absences/buyouts	Bonded Debt	Total
Balance, July 1, 2006	\$370,565	\$13,956,867	\$14,327,432
Additions	122,257	3,915,220	4,037,477
Deletions		(4,310,774)	(4,310,774)
Balance, June 30, 2007	492,822	13,561,313	14,054,135
Less current portion	(147,984)	(490,000)	(637,984)
Total due after one year	\$344,838	\$13,071,313	\$13,416,151

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 4 - LONG-TERM DEBT (CONTINUED):

The following is a summary of the various long-term debt of the school district:

1998 Issue due in annual installments of \$70,000 to \$80,000 with interest from 4.65% to 4.80%.	\$ 80,000
1999 Issue due in annual installments of \$25,000 and \$30,000 with interest of 5.00%.	60,000
2001 Qualified Zone Academy Bonds (QZAB face amount \$1,168,097). The bonds are interest free and are repayable starting 3/14/05 in installments of \$8,097 on 3/14/05 and \$145,000 starting 3/14/06 through 3/14/13. The district is required to set aside \$97,341 beginning on 3/14/02 and each year thereafter. The sum of these amounts set aside, together with the interest earned thereon, will be sufficient to repay the aggregate principal amount of the bonds.	870,000
2001 Bond Issue	935,000
2006 Bond Refunding	3,900,000
Limited obligation (Durant) bond, due in annual installments of \$20,028 to \$4,434 through May 15, 2013, with interest of 4.76%.	35,845
2005 Bond Refunding	8,345,000
Plus: Premium on bond refunding	39,749
Less: Discount on bond refunding	(41,958)
Less: Deferred issuance costs	(121,584)
Less: Deferred amount on bond refunding	<u>(540,739)</u>
Total general obligation debt	13,561,313
Accumulated compensated absences/buyouts	<u>492,822</u>
Total long-term debt	<u>\$14,054,135</u>

Interest expense (all funds) for the year ended June 30, 2007 was \$624,472.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 4 - LONG-TERM DEBT (CONTINUED):

DEBT SERVICE REQUIREMENTS:

The annual requirements to amortize long-term debt outstanding as of June 30, 2007 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 490,000	\$ 556,278	\$ 1,046,278
2009	449,867	543,958	993,825
2010	464,178	535,505	999,683
2011	490,342	520,564	1,010,906
2012	530,596	507,158	1,037,754
2013-2017	2,770,862	2,216,753	4,987,615
2018-2022	3,305,000	1,602,892	4,907,892
2023-2027	3,155,000	949,034	4,104,034
2028-2032	<u>2,570,000</u>	<u>276,782</u>	<u>2,846,782</u>
	14,225,845	7,708,924	21,934,769
Premium on bond refunding	39,749		39,749
Discount on bond refunding	(41,958)		(41,958)
Deferred amount on bond refunding	(540,739)		(540,739)
Deferred Issuance Costs	(121,584)		(121,584)
Accum compensated absences/buyouts	<u>492,822</u>		<u>492,822</u>
	<u>\$14,054,135</u>	<u>\$7,708,924</u>	<u>\$21,763,059</u>

An amount of \$696,430 is available in the general and debt service funds to service the general obligation debt.

CHANGES IN LONG-TERM DEBT:

Following is a summary of long-term debt transactions of the district for the year ended June 30, 2007:

	<u>ACCUMULATED SICK & VACATION PAY & BUYOUTS</u>	<u>GENERAL OBLIGATION</u>
Long-term debt - July 1, 2006	\$370,565	\$14,475,845
Net increase in accumulated compensated absences/buyouts	122,257	
Additions:		3,905,000
2006 Bond Refunding		
Amounts paid during the year:		
1998 Issue		(75,000)
1999 Issue		(30,000)
2001 Issue refunded		(3,855,000)
2005 Refunding		(45,000)
2006 Refunding		(5,000)
QZAB		(145,000)
Durant bonds paid		(0)
Total	<u>\$492,822</u>	<u>\$14,225,845</u>

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (CONTINUED):

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 16.34% through September 2006 and 17.74% for October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributes to MPERS for the years ended June 30, 2007, 2006, and 2005 were \$827,171, \$767,908, and \$634,814, respectively, and were equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits that is the responsibility of the State of Michigan.

Other Post-Employee Benefits:

Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

NOTE 6 - OPERATING LEASES:

The School District leases a bus and equipment under operating lease agreements that expire at various dates, respectively. Lease expense amounted to \$44,938. At June 30, 2007, future lease payments under such leases are as follows:

June 30, 2008

\$33,810

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 7 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 8 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>July 1, 2006</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>June 30, 2007</u>
Assets Not Being Depreciated -- Land	\$ 142,260	-	-	\$ 42,260
Other Capital Assets:				
Land Improvements	735,688			735,688
Building and Additions	14,586,307			14,586,307
Machinery and Equipment	1,484,928	\$ 9,696	\$ (7,993)	1,486,631
Transportation Equipment	847,105	67,380		914,485
Subtotal	<u>17,654,028</u>	<u>77,076</u>	<u>(7,993)</u>	<u>17,723,111</u>
Accumulated Depreciation:				
Land Improvements	(218,274)	(32,927)		(251,201)
Building and Additions	(2,307,151)	(265,368)		(2,572,519)
Machinery and Equipment	(1,114,388)	(109,129)	3,996	(1,219,521)
Transportation Equipment	(666,645)	(46,874)		(713,519)
Subtotal	<u>(4,306,458)</u>	<u>(454,298)</u>	<u>-</u>	<u>(4,756,760)</u>
Net Other Capital Assets	<u>13,347,570</u>	<u>(377,222)</u>	<u>(3,997)</u>	<u>12,966,351</u>
Net Capital Assets	<u>\$13,489,830</u>	<u>\$(377,222)</u>	<u>\$ (3,997)</u>	<u>\$13,108,611</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$454,298. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

BROWN CITY COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 9- TRANSFERS:

Transfers between funds for the year ended June 30, 2007 were as follows:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$141,000	\$5,000
Athletic Fund		141,000
Hot Lunch Fund	<u>5,000</u>	<u> </u>
Total Transfers	<u>\$146,000</u>	<u>\$146,000</u>

The transfer to athletic fund from general fund was to subsidize operations. The transfer from hot lunch to general fund was to help cover hot lunch fund administrative/maintenance expenses.

NOTE 10 – NOTE PAYABLE AND SUBSEQUENT EVENT:

On September 21, 2007, a state aid note from Tri-County Bank in the amount of \$750,000 matured and was paid. The state aid note, which was recorded as a liability at June 30, 2007 on the balance sheet, had an interest rate of 3.98%.

REQUIRED SUPPLEMENTARY INFORMATION

BROWN CITY COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Local sources	\$ 567,518	\$ 595,001	\$ 604,444	\$ 9,443
State sources	7,823,400	7,927,649	7,904,888	(22,761)
Federal sources	381,797	406,145	370,191	(35,954)
Other transactions:				
Transfers from other districts	4,455	4,455	32,482	28,027
Sale of school property		-	-	-
Refund of prior years expenditures	240	240	9,133	8,893
Insurance reimbursement	20,000	25,000	25,000	-
Miscellaneous	2,029	22,924	21,725	(1,199)
TOTAL REVENUES	<u>8,799,439</u>	<u>8,981,414</u>	<u>8,967,863</u>	<u>(13,551)</u>
EXPENDITURES				
Instruction	4,902,407	4,935,142	4,939,825	(4,683)
Supporting services	3,711,774	3,411,765	3,366,865	44,900
Community services	46,781	47,242	47,067	175
TOTAL EXPENDITURES	<u>8,660,962</u>	<u>8,394,149</u>	<u>8,353,757</u>	<u>40,392</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>138,477</u>	<u>587,265</u>	<u>614,106</u>	<u>26,841</u>
OTHER FINANCING SOURCES (USES):				
Payments on loans	(215,443)	(250,000)	(250,000)	-
Site services	(15,000)	(360)	(360)	-
Payments to other schools	(202,391)	-	-	-
Fund transfers in	9,200	9,200	5,000	(4,200)
Fund transfers out	(168,000)	(141,000)	(141,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(591,634)</u>	<u>(382,160)</u>	<u>(386,360)</u>	<u>(4,200)</u>
EXCESS (DEFICIENCY) OR REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u><u>\$(453,157)</u></u>	<u><u>\$ 205,105</u></u>	<u>227,746</u>	<u><u>\$ 22,641</u></u>
FUND BALANCE - BEGINNING OF YEAR			1,990,956	
FUND BALANCE - END OF YEAR			<u><u>\$ 2,218,702</u></u>	

ADDITIONAL INFORMATION

BROWN CITY COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2007

GOVERNMENTAL FUND TYPES			
	DURANT DEBT	2001/2005/2006 ISSUE	SPECIAL REVENUE
			TOTAL 2007
<u>ASSETS</u>			
Cash		\$ 360,487	\$ 81,322
Taxes receivable		9,481	9,481
Due from other governmental units			3,693
Inventory			5,649
TOTAL ASSETS	-	\$ 369,968	\$ 90,664
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts payable			-
TOTAL LIABILITIES	-		-
<u>FUND BALANCE</u>			
Fund balances:			
Reserved for debt service		\$ 369,968	369,968
Unreserved:			
Undesignated	-		\$ 90,664
TOTAL FUND BALANCE	-	369,968	90,664
TOTAL LIABILITIES AND FUND BALANCE	-	\$ 369,968	\$ 90,664

BROWN CITY COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2007

	GOVERNMENTAL FUND TYPES			TOTAL
	DURANT DEBT	2001/2005/2006 ISSUE	SPECIAL REVENUE	2007
REVENUES				
Local sources	-	\$ 804,335	\$301,745	\$1,106,080
State sources	-	-	31,138	31,138
Federal sources	-		235,577	235,577
TOTAL REVENUES	-	804,335	568,460	1,372,795
EXPENDITURES				
Food services			467,504	467,504
Athletic services			221,423	221,423
Principal payments	-	205,000		205,000
Interest and fiscal charges	-	561,669	-	561,669
TOTAL EXPENDITURES	-	766,669	688,927	1,455,596
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	37,666	(120,467)	(82,801)
OTHER FINANCING SOURCES (USES)				
Fund transfers in			141,000	141,000
Fund transfers out			(5,000)	(5,000)
Proceeds from bond refunding		3,905,000		3,905,000
Bond Premium		12,087		12,087
Payment to bond escrow agent		(3,700,000)		(3,700,000)
Payments for premiums and discounts		(16,792)		(16,792)
Deferred amount		(117,658)		(117,658)
Bond Issuance costs		(54,761)		(54,761)
TOTAL OTHER FINANCING SOURCES (USES)	-	27,876	136,000	163,876
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	-	65,542	15,533	81,075
FUND BALANCE AT BEGINNING OF YEAR	-	304,426	75,131	379,557
FUND BALANCE AT END OF YEAR	-	\$ 369,968	\$ 90,664	\$ 460,632

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
LOCAL SOURCES:			
Property taxes	\$ 446,371	\$ 435,309	\$ (11,062)
Earnings on investments	67,430	88,290	20,860
Tuition and fees	26,500	22,157	(4,343)
Rental of facilities	307	411	104
Child care fees	48,699	48,374	(325)
Other local revenues	5,694	9,903	4,209
Total Local Sources	<u>595,001</u>	<u>604,444</u>	<u>9,443</u>
STATE SOURCES:			
Foundation grant	7,396,990	7,372,741	(24,249)
At Risk	199,617	199,473	(144)
Special education	178,712	191,356	12,644
Adult education	67,531	67,943	412
Non-plaintiff - Durant settlement	-	-	-
Renaissance zone	-	-	-
Other	84,799	73,375	(11,424)
Total State Sources	<u>7,927,649</u>	<u>7,904,888</u>	<u>(22,761)</u>
FEDERAL SOURCES:			
Title I	258,341	254,949	(3,392)
Title II	59,561	59,958	397
Title V	1,062	1,062	-
IDEA Project #060450/0506	84,584	51,200	(33,384)
Vocational education	-	425	425
Homeland security	-	-	-
Technology & other	2,707	2,597	(110)
Total Federal Sources	<u>406,255</u>	<u>370,191</u>	<u>(36,064)</u>
OTHER TRANSACTIONS			
Transfers from other districts:			
Special Education	3,378	3,292	(86)
Other	1,077	29,190	28,113
Sale of School property	-	-	-
Refund of prior years expenditures	240	9,133	8,893
Insurance reimbursement	25,000	25,000	-
Miscellaneous	22,924	21,725	(1,199)
Total Other transactions	<u>52,619</u>	<u>88,340</u>	<u>35,721</u>
OTHER FINANCING SOURCES:			
Transfers from other funds	9,200	5,000	(4,200)
Total Other Financing Sources	<u>9,200</u>	<u>5,000</u>	<u>(4,200)</u>
TOTAL REVENUES	<u><u>\$ 8,990,724</u></u>	<u><u>\$ 8,972,863</u></u>	<u><u>\$ (17,861)</u></u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
Elementary			
Professional salaries	\$ 1,162,748	\$ 1,166,217	\$ (3,469)
Nonprofessional salaries	30,194	30,194	-
Insurance benefits	360,652	365,993	(5,341)
FICA	367,962	368,838	(876)
Purchased services	33,492	33,492	-
Supplies	32,122	32,030	92
Miscellaneous	3,559	3,637	(78)
Total Elementary	<u>1,990,729</u>	<u>2,000,401</u>	<u>(9,672)</u>
High School			
Professional salaries	1,043,290	1,044,247	(957)
Nonprofessional salaries	18,911	18,911	-
Insurance benefits	319,444	316,838	2,606
FICA	278,149	278,447	(298)
Purchased services	35,147	33,211	1,936
Supplies	55,374	54,323	1,051
Miscellaneous	185,120	187,669	(2,549)
Total High School	<u>1,935,435</u>	<u>1,933,646</u>	<u>1,789</u>
Preschool			
Professional salaries	15,359	15,473	(114)
Nonprofessional salaries	4,479	4,478	1
Insurance benefits	9,870	9,103	767
FICA	4,994	5,024	(30)
Purchased services	4,901	4,901	-
Supplies	1,804	1,804	-
Capital outlay	-	-	-
Miscellaneous	-	-	-
Total Preschool	<u>41,407</u>	<u>40,783</u>	<u>624</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
ADDED NEEDS:			
Special Education			
Professional salaries	\$ 220,286	\$ 221,398	\$ (1,112)
Nonprofessional salaries	50,286	50,286	-
Insurance benefits	81,693	81,506	187
FICA	68,100	68,380	(280)
Purchased services	181	181	-
Supplies	2,675	2,659	16
Capital outlay	405	405	-
Miscellaneous	2,984	2,884	100
Total Special Education	<u>426,610</u>	<u>427,699</u>	<u>(1,089)</u>
Compensatory Education			
Professional salaries	139,771	140,592	(821)
Nonprofessional salaries	125,317	125,317	-
Insurance benefits	23,494	22,890	604
FICA	65,827	62,547	3,280
Purchased services	38,270	38,270	-
Supplies	4,911	4,893	18
Capital outlay	-	-	-
Total Compensatory Education	<u>397,590</u>	<u>394,509</u>	<u>3,081</u>
Vocational Education			
Professional salaries	67,071	67,190	(119)
Nonprofessional salaries	4,556	4,556	-
Insurance benefits	20,679	20,246	433
FICA	18,229	18,259	(30)
Purchased services	2,067	2,067	-
Supplies	6,135	6,134	1
Miscellaneous	-	-	-
Total Vocational Education	<u>119,687</u>	<u>119,398</u>	<u>289</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
ADULT/CONTINUING EDUCATION:			
Vocational Education			
Professional salaries	\$ 11,390	\$ 11,390	-
FICA	2,878	2,878	-
Purchased services	8,418	8,125	\$ 293
Supplies	430	428	2
Miscellaneous	568	568	-
Total Vocational Education	<u>23,684</u>	<u>23,389</u>	<u>295</u>
TOTAL INSTRUCTION	<u>4,935,142</u>	<u>4,939,825</u>	<u>590</u>
SUPPORT SERVICES			
PUPIL:			
Guidance			
Professional salaries	136,192	136,414	(222)
Nonprofessional salaries	9,968	9,737	231
Insurance benefits	9,420	8,926	494
FICA	38,749	38,744	5
Purchased services	19,900	19,887	13
Supplies	425	424	1
Miscellaneous	-	-	-
Total Guidance	<u>214,654</u>	<u>214,132</u>	<u>522</u>
Health			
Purchased services	75	122	(47)
Supplies	841	841	-
Total Health	<u>916</u>	<u>963</u>	<u>(47)</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
PUPIL:			
Psychological			
Purchased services	\$ 5,250	\$ 4,550	\$ 700
Total Psychological	<u>5,250</u>	<u>4,550</u>	<u>700</u>
Speech Pathology and Audiology			
Professional salaries	61,609	61,681	(72)
Insurance benefits	21,805	22,287	(482)
FICA	15,495	15,513	(18)
Supplies	1,189	1,189	-
Total Speech Pathology and Audiology	<u>100,098</u>	<u>100,670</u>	<u>(572)</u>
Other Pupil Services			
Nonprofessional salaries	31,978	31,978	-
Insurance benefits	324	302	22
FICA	8,840	8,075	765
Purchased services	160	179	(19)
Total Other Pupil Services	<u>41,302</u>	<u>40,534</u>	<u>768</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
INSTRUCTIONAL STAFF:			
Improvement of Instruction			
Professional salaries	\$ 11,700	\$ 11,700	-
Nonprofessional salaries	13,571	13,454	\$ 117
Insurance benefits	120	120	-
FICA	6,370	6,339	31
Purchased services	8,759	8,757	2
Supplies	500	397	103
Total Improvement of Instruction	<u>41,020</u>	<u>40,767</u>	<u>253</u>
Library			
Professional salaries	67,071	67,190	(119)
Nonprofessional salaries	21,420	21,129	291
Insurance benefits	7,662	7,585	77
FICA	21,288	22,163	(875)
Purchased services	938	938	-
Supplies	12,921	12,921	-
Capital outlay	803	803	-
Total Library	<u>132,103</u>	<u>132,729</u>	<u>(626)</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
INSTRUCTIONAL STAFF:			
Computer Assisted Instruction			
Professional salaries	\$ 32,542	\$ 32,542	-
Nonprofessional salaries	19,166	17,829	\$ 1,337
Insurance benefits	21,774	21,737	37
FICA	15,080	14,775	305
Purchased services	26,085	26,085	-
Supplies	419	419	-
Total Computer Assisted Instruction	<u>115,066</u>	<u>113,387</u>	<u>1,679</u>
GENERAL ADMINISTRATION:			
Board of Education			
Professional salaries	4,145	4,115	30
Purchased services	33,417	34,200	(783)
Supplies	486	486	-
Miscellaneous	3,556	3,454	102
Total Board of Education	<u>41,604</u>	<u>42,255</u>	<u>(651)</u>
Executive Administration			
Professional salaries	103,530	103,529	1
Nonprofessional salaries	39,647	39,157	490
Insurance benefits	44,780	43,242	1,538
FICA	153,034	116,686	36,348
Purchased services	13,714	13,733	(19)
Supplies	5,800	5,648	152
Capital outlay	-	-	-
Miscellaneous	2,239	2,239	-
Total Executive Administration	<u>362,744</u>	<u>324,234</u>	<u>38,510</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
GENERAL ADMINISTRATION:			
Grant Writer			
Nonprofessional salaries	\$ 2,000	\$ 2,000	-
FICA	508	508	-
Total Grant Writer	<u>2,508</u>	<u>2,508</u>	<u>-</u>
SCHOOL ADMINISTRATION:			
Office of the Principal			
Professional salaries	235,179	235,179	-
Nonprofessional salaries	102,703	102,703	-
Insurance benefits	55,847	54,979	\$ 868
FICA	107,502	107,503	(1)
Purchased services	1,550	1,519	31
Supplies	16,516	15,589	927
Miscellaneous	132	132	-
Total Office of the Principal	<u>519,429</u>	<u>517,604</u>	<u>1,825</u>
BUSINESS:			
Fiscal Services			
Nonprofessional salaries	86,629	86,629	-
Insurance benefits	23,153	23,045	108
FICA	32,660	32,657	3
Purchased services	1,200	1,175	25
Supplies	1,150	955	195
Miscellaneous	124	124	-
Total Fiscal Services	<u>144,916</u>	<u>144,585</u>	<u>331</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES BUSINESS:			
Other Business Services			
Purchased services	\$ 7,545	\$ 7,545	-
Miscellaneous	14,663	14,663	-
Interest	55,252	41,753	\$ 13,499
Total Other Business Services	<u>77,460</u>	<u>63,961</u>	<u>13,499</u>
OPERATION/MAINTENANCE			
Professional salaries	74,288	74,288	-
Nonprofessional salaries	251,013	249,815	1,198
Insurance benefits	33,487	33,456	31
FICA	90,197	89,735	462
Purchased services	176,340	168,652	7,688
Supplies	311,420	301,207	10,213
Capital outlay	6,495	6,495	-
TOTAL OPERATION/MAINTENANCE	<u>943,240</u>	<u>923,648</u>	<u>19,592</u>
PUPIL TRANSPORTATION			
Professional salaries	39,795	39,795	-
Nonprofessional salaries	172,291	171,648	643
Insurance benefits	40,178	39,382	796
FICA	55,556	54,775	781
Purchased services	36,302	36,056	246
Supplies	79,110	78,206	904
Capital outlay	67,380	67,380	-
Miscellaneous	1,590	1,437	153
TOTAL PUPIL TRANSPORTATION	<u>492,202</u>	<u>488,679</u>	<u>3,523</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORT SERVICES			
SUPPORT SERVICES TECHNOLOGY			
Nonprofessional salaries	\$ 90,218	\$ 89,804	\$ 414
Insurance benefits	19,126	18,909	217
FICA	32,465	32,360	105
Purchased services	22,008	21,645	363
Supplies	568	568	-
Capital outlay	49,224	48,373	851
TOTAL SUPPORT SERVICES TECHNOLOGY	<u>213,609</u>	<u>211,659</u>	<u>1,950</u>
TOTAL SUPPORT SERVICES	<u>3,448,121</u>	<u>3,366,865</u>	<u>81,256</u>
COMMUNITY SERVICES:			
Custody and Care of Children			
Nonprofessional salaries	34,893	34,892	1
FICA	8,938	8,940	(2)
Purchased services	1,259	1,259	-
Supplies	-	-	-
Miscellaneous	83	83	-
Total Custody and Care of Children	<u>45,173</u>	<u>45,174</u>	<u>(1)</u>
Other Community Services			
Purchased services	1,000	1,000	-
Supplies	1,069	893	176
Total Other Community Services	<u>2,069</u>	<u>1,893</u>	<u>176</u>
TOTAL COMMUNITY SERVICES	<u>47,242</u>	<u>47,067</u>	<u>174</u>

BROWN CITY COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
OTHER FINANCING USES:			
Transfers to other funds	\$ 141,000	\$ 141,000	-
Site services	360	360	-
Payments to other schools	-	-	-
Payments on Loans	250,000	250,000	-
TOTAL OTHER FINANCING USES	<u>391,360</u>	<u>391,360</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 8,785,509</u>	<u>\$ 8,745,117</u>	<u>\$ 45,664</u>

BROWN CITY COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
SPECIAL REVENUE FUND
June 30, 2007

	<u>FOOD SERVICE</u>	<u>ATHLETICS</u>	<u>TOTAL 2007</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 79,571	\$ 1,751	\$ 81,322
Due from other governmental units	3,693	-	3,693
Inventory	5,649	-	5,649
<u>TOTAL ASSETS</u>	<u><u>\$ 88,913</u></u>	<u><u>\$ 1,751</u></u>	<u><u>\$ 90,664</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES:			
Accounts payable	-	-	-
<u>TOTAL LIABILITIES</u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
FUND BALANCE:			
Unreserved			
Undesignated	\$ 88,913	\$ 1,751	\$ 90,664
<u>TOTAL FUND BALANCE</u>	<u><u>88,913</u></u>	<u><u>1,751</u></u>	<u><u>90,664</u></u>
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u><u>\$ 88,913</u></u>	<u><u>\$ 1,751</u></u>	<u><u>\$ 90,664</u></u>

BROWN CITY COMMUNITY SCHOOLS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUND
June 30, 2007

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>TOTAL 2007</u>
REVENUES:			
Local sources	\$ 227,408	\$ 74,337	\$ 301,745
State sources	31,138		31,138
Federal sources	235,577		235,577
TOTAL REVENUES	<u>494,123</u>	<u>74,337</u>	<u>568,460</u>
EXPENDITURES:			
Professional Salaries	-		-
Nonprofessional salaries	128,205		128,205
Insurance benefits	7,193		7,193
FICA	33,154		33,154
Commodities	276,926		276,926
Capital outlay	8,665		8,665
Athletic activities		221,423	221,423
Travel & workshops	9,362		9,362
Other expenses	3,999		3,999
TOTAL EXPENDITURES	<u>467,504</u>	<u>221,423</u>	<u>688,927</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>26,619</u>	<u>(147,086)</u>	<u>(120,467)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in		141,000	141,000
Fund transfers out	(5,000)	-	(5,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5,000)</u>	<u>141,000</u>	<u>136,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>21,619</u>	<u>(6,086)</u>	<u>15,533</u>
FUND BALANCE AT BEGINNING OF YEAR	67,294	7,837	75,131
FUND BALANCE AT END OF YEAR	<u>\$ 88,913</u>	<u>\$ 1,751</u>	<u>\$ 90,664</u>

BROWN CITY COMMUNITY SCHOOLS
BALANCE SHEET
2001/2005/2006 DEBT SERVICE FUND
June 30, 2007

	<u>2007</u>
<u>ASSETS</u>	
Cash	\$ 360,487
Taxes Receivable	9,481
TOTAL ASSETS	<u>\$ 369,968</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
 FUND BALANCE:	
Reserved for debt service	\$ 369,968
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 369,968</u>

BROWN CITY COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>2001/2005/2006 ISSUE</u>	<u>DURANT DEBT</u>	<u>TOTAL 2007</u>
REVENUES			
Local Sources:			
Property taxes	\$ 786,916		\$ 786,916
Earnings on investments	15,910		15,910
Miscellaneous income	1,509		1,509
Total Local Sources	<u>804,335</u>	<u>-</u>	<u>804,335</u>
State Sources		-	-
TOTAL REVENUES	<u>804,335</u>	<u>-</u>	<u>804,335</u>
EXPENDITURES			
Debt Service:			
Principal repayment	205,000	-	205,000
Interest and other fiscal charges	561,669	-	561,669
TOTAL EXPENDITURES	<u>766,669</u>	<u>-</u>	<u>766,669</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>37,666</u>	<u>-</u>	<u>37,666</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from bond refunding	3,905,000		3,905,000
Bond Premium	12,087		12,087
Payment to bond escrow agent	(3,700,000)		(3,700,000)
Payments for premiums and discounts	(16,792)		(16,792)
Deferred amount	(117,658)		(117,658)
Bond Issuance costs	(54,761)		(54,761)
TOTAL OTHER FINANCING SOURCES (USES)	<u>27,876</u>	<u>-</u>	<u>27,876</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>65,542</u>	<u>-</u>	<u>65,542</u>
FUND BALANCES:			
Beginning of Year	304,426		304,426
End of Year	<u>\$ 369,968</u>	<u>-</u>	<u>\$ 369,968</u>

BROWN CITY COMMUNITY SCHOOLS
AGENCY FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BALANCE AT</u> <u>6/30/2006</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2007</u>
Art	\$ 600	\$ 41	\$ 75	\$ 566
Athletic CC	215	1,273	1,312	176
Athletic Baseball	1	3,016	3,015	2
Athletic Baseball Facility Account	2,473	5,541	6,178	1,836
Athletic Boys Varsity Basketball	1,012	6,803	7,299	516
Athletic Elementary Girls Basketball	(42)	5,771	4,972	757
Athletic Football	1,605	1,275	2,892	(12)
Athletic Girls Varsity Track	535	3,822	3,677	680
Athletic Golf	855	1,077	959	973
Athletic Sideline Cheer	1,520	12,655	12,963	1,212
Athletic Varsity Softball	1,732	1,522	1,956	1,298
Athletic Varsity Volleyball	910	4,018	4,226	702
Athletic Wrestling	(59)	1,809	1,676	74
Autoshop Pop Machine	1,700	4,140	4,542	1,298
Band	121	15,104	15,106	119
Bowling	-	1,683	983	700
Bus Garage	363	36	-	399
Chorus	22	399	262	159
Class of 1974 - 2002	1,702	-	53	1,649
Class of 2004	246	-	-	246
Class of 2005	2,918	-	-	2,918
Class of 2006	973	-	-	973
Class of 2007	1,859	5,844	7,603	100
Class of 2008	5,312	10,136	10,613	4,835
Class of 2009	5,023	6,721	5,934	5,810
Class of 2010	2,482	4,129	2,805	3,806
Class of 2011	1,633	2,832	2,204	2,261
Class of 2012	-	2,461	1,886	575
Class of 2013	-	581	-	581
Computer Club	125	-	-	125
Croswell Learning Center	66	-	-	66
D. Muxlow - Principal	2,040	47,788	41,179	8,649
D. Muxlow Pop Machine	454	1,968	1,141	1,281
Drama Club	1,646	-	-	1,646
Elementary Gift & Flower Fund	404	232	424	212
Elementary Knights of Columbus	67	328	395	-
Equestrian Team	404	1,086	284	1,206
High School Gifts & Flowers	75	345	368	52
High School Knights of Columbus	518	-	518	0
High School Quiz Bowl	93	50	50	93
High School Student Council	1,550	3,533	5,017	66

BROWN CITY COMMUNITY SCHOOLS
AGENCY FUND
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BALANCE AT</u> <u>6/30/2006</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE AT</u> <u>6/30/2007</u>
S. Roper Candy	\$ 1,998	\$ 10,125	\$ 9,797	\$ 2,326
S. Roper Internal	1,383	4,396	5,049	730
High School Student Incentive	-	500	70	430
Library Fines	77	197	16	258
Mrs. Hensels Class	45	-	-	45
High School Science	-	15	-	15
National Honor Society	700	3,782	3,775	707
Playground Equipment	7,726	-	-	7,726
Project Graduation	796	-	-	796
PTO	4,922	18,990	19,798	4,114
Reading Incentive	-	-	114	(114)
SADD	717	97	473	341
Soccer	1,155	400	1,155	400
Spanish Class	13	-	-	13
Steigerwald - Principal	11,586	7,807	9,257	10,136
Yearbook	1,669	4,301	55	5,915
TOTAL AGENCY FUND	<u>\$ 75,940</u>	<u>\$ 208,629</u>	<u>\$ 202,126</u>	<u>\$ 82,443</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2007

Date of Issue: July 1, 1998

Original Amount of Issue: \$500,000

Purpose of Issue: Limited tax general obligation bonds - Energy Conservation

<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Annual Maturity June 1</u>	<u>Semi-Annual Interest Payments</u>		<u>Total Fiscal Year Requirements</u>
			<u>June 1</u>	<u>December 1</u>	
4.80%	2008	\$ 80,000	\$ 1,920	\$ 1,920	\$ 83,840
		<u>\$ 80,000</u>	<u>\$ 1,920</u>	<u>\$ 1,920</u>	<u>\$ 83,840</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2007

Date of Issue: November 24, 1999

Original Amount of Issue: \$250,000

Purpose of Issue: Limited tax general obligation bonds

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			May 1	November 1	
5.00%	2008	\$ 30,000	\$ 1,500	\$ 1,500	\$ 33,000
5.00%	2009	30,000	750	750	31,500
		<u>\$ 60,000</u>	<u>\$ 2,250</u>	<u>\$ 2,250</u>	<u>\$ 64,500</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2007

Date of Issue: March 14, 2001

Original Amount of Issue: \$ 1,168,097

Purpose of Issue: Limited tax general obligation bonds (Qualified Zone Academy Bonds)

<u>Fiscal Year</u>	<u>Annual Payment March 14</u>	<u>Total Fiscal Year Requirements</u>
2008	\$ 145,000	\$ 145,000
2009	145,000	145,000
2010	145,000	145,000
2011	145,000	145,000
2012	145,000	145,000
2013	145,000	145,000
	<u>\$ 870,000</u>	<u>\$ 870,000</u>

BROWN CITY COMMUNITY SCHOOLS**SCHEDULE OF BONDED DEBT**

June 30, 2007

Date of Issue: October 29, 2001

Original Amount of Issue: \$ 12,900,000

Purpose of Issue Erecting, furnishing and equipping additions to the High School and the existing Elementary School; Partially remodeling, re-furnishing and re-equipping the High School and the existing Elementary School; Acquiring and installing new technology; Improving outdoor physical education facilities; Developing and improving sites.

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			May 1	November 1	
3.60%	2008	\$ 185,000	\$ 17,800	\$ 17,800	\$ 220,600
3.75%	2009	220,000	14,470	14,470	248,940
3.85%	2010	245,000	10,345	10,345	265,690
3.95%	2011	285,000	5,629	5,629	296,258
		<u>\$ 935,000</u>	<u>\$ 48,244</u>	<u>\$ 48,244</u>	<u>\$ 1,031,488</u>

Bonds due to mature in the years 2014-2026 were refunded December 6, 2005.

Bonds due to mature in the years 2027-2031 were refunded September 6, 2006.

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
June 30, 2007

Date of Issue: November 24, 1999

Original Amount of Issue: \$ 87,456

Purpose of Issue: Durant issue; School Improvements

<u>Interest Rate</u>	<u>Fiscal Year</u>	<u>Annual Maturity May 15</u>	<u>Annual Interest Payments May 15</u>	<u>Total Fiscal Year Requirements</u>
4.76%	2008	-	-	-
4.76%	2009	\$ 4,867	\$ 1,274	\$ 6,141
4.76%	2010	14,178	4,245	18,423
4.76%	2011	5,342	800	6,142
4.76%	2012	5,596	546	6,142
4.76%	2013	5,862	279	6,141
		<u>\$ 35,845</u>	<u>\$ 7,144</u>	<u>\$ 42,989</u>

This bond, including interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, Hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository. A revised payment schedule was issued on March 24, 2003.

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT- 2005 REFUNDING
June 30, 2007

Refunding serial bonds in the amount of \$8,465,000 were issued December 6, 2005 to refinance 2001 serial bonds (due to mature in the years 2014-2026).

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			May 1	November 1	
3.13%	2008	\$ 45,000	\$ 170,826	\$ 170,826	\$ 386,652
3.25%	2009	40,000	170,123	170,123	380,246
3.38%	2010	50,000	169,473	169,473	388,946
3.38%	2011	45,000	168,629	168,629	382,258
3.50%	2012	45,000	167,869	167,869	380,738
3.63%	2013	60,000	167,082	167,082	394,164
5.00%	2014	465,000	165,994	165,994	796,988
5.00%	2015	515,000	154,369	154,369	823,738
3.75%	2016	565,000	141,494	141,494	847,988
3.80%	2017	620,000	130,901	130,901	881,802
3.85%	2018	665,000	119,121	119,121	903,242
3.90%	2019	660,000	106,319	106,319	872,638
4.00%	2020	650,000	93,449	93,449	836,898
4.00%	2021	645,000	80,449	80,449	805,898
4.00%	2022	635,000	67,549	67,549	770,098
4.10%	2023	630,000	54,849	54,849	739,698
4.13%	2024	625,000	41,934	41,934	708,868
4.13%	2025	620,000	29,044	29,044	678,088
4.25%	2026	615,000	16,257	16,257	647,514
4.25%	2027	150,000	3,188	3,188	156,376
		<u>\$ 8,345,000</u>	<u>\$ 2,218,919</u>	<u>\$ 2,218,919</u>	<u>\$ 12,782,838</u>

BROWN CITY COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT- 2006 REFUNDING
June 30, 2007

Refunding serial bonds in the amount of \$3,905,000 were issued September 6, 2006 to refinance 2001 serial bonds (due to mature in the years 2027-2031).

Interest Rate	Fiscal Year	Annual Maturity May 1	Semi-Annual Interest Payments		Total Fiscal Year Requirements
			May 1	November 1	
3.75%	2008	\$ 5,000	\$ 86,093	\$ 86,093	\$ 177,186
3.75%	2009	10,000	85,999	85,999	181,998
3.75%	2010	10,000	85,812	85,812	181,624
3.75%	2011	10,000	85,624	85,624	181,248
5.00%	2012	335,000	85,437	85,437	505,874
5.00%	2013	360,000	77,062	77,062	514,124
4.00%	2014	5,000	68,062	68,062	141,124
4.00%	2015	10,000	67,962	67,962	145,924
4.25%	2016	10,000	67,762	67,762	145,524
4.25%	2017	10,000	67,549	67,549	145,098
4.25%	2018	10,000	67,337	67,337	144,674
4.25%	2019	10,000	67,124	67,124	144,248
4.25%	2020	10,000	66,912	66,912	143,824
4.25%	2021	10,000	66,699	66,699	143,398
4.25%	2022	10,000	66,487	66,487	142,974
4.25%	2023	10,000	66,274	66,274	142,548
4.25%	2024	10,000	66,062	66,062	142,124
4.25%	2025	10,000	65,849	65,849	141,698
4.25%	2026	10,000	65,637	65,637	141,274
4.25%	2027	475,000	65,424	65,424	605,848
4.25%	2028	650,000	55,331	55,331	760,662
4.30%	2029	645,000	41,518	41,518	728,036
4.30%	2030	640,000	27,651	27,651	695,302
4.38%	2031	635,000	13,891	13,891	662,782
		<u>\$ 3,900,000</u>	<u>\$ 1,579,558</u>	<u>\$ 1,579,558</u>	<u>\$ 7,059,116</u>

BROWN CITY COMMUNITY SCHOOL DISTRICT

ADDITIONAL REPORTS REQUIRED
BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2007

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 7, 2007

Board of Education
Brown City Community Schools
Brown City, Michigan 48416

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Brown City Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brown City Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Brown City Community Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we considered to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described as 2007-1 in the accompanying schedule of findings and responses to be significant in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above as 2007-1 are material weaknesses.

Board of Education
Brown City Community Schools
September 7, 2007

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Brown City Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Brown City Community Schools in a separate letter dated September 7, 2007.

Brown City Schools' response to the finding identified in our audit described in the accompanying schedule of findings and responses. We did not audit Brown City Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 7, 2007

To the Board of Education
Brown City Community Schools
Brown City, MI 48416

COMPLIANCE

We have audited the compliance of Brown City Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. Brown City Community Schools' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of Brown City Community Schools' management. Our responsibility is to express an opinion on Brown City Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brown City Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Brown City Community Schools' compliance with those requirements.

In our opinion, Brown City Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of Brown City Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Brown City Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Brown City Community Schools' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown City Community Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 7, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Brown City Community Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the board of education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE
				38,898				39,263
U.S. DEPARTMENT OF EDUCATION:								
Passed through Michigan Dept. of Education:								
ECIA Title I - C/O	84.010	615300506	\$ 258,356	\$ 21,110	\$ 252,332	\$ 27,134	\$ 6,024	0
ECIA Title I - regular	84.010	715300607	258,356	21,110	252,332	197,809	248,925	\$ 51,116
			516,712			224,943	254,949	51,116
State plan self review	84.027	0604403PSR	3,010		3,065	(55)	(55)	-
Title V	84.298	702500607	1,062			-	1,062	1,062
Technology Literacy Challenge Title II D	84.318	742900607	2,652			1,938	2,652	714
Title IIA - Class Size Reduction	84.367	705200607	63,382			46,147	53,372	7,225
		605200506	64,269	7,910	64,269	7,910	6,586	6,586
			127,651	7,910	64,269	54,057	59,958	13,811
Total Passed Through Michigan Dept. of Education			651,087	29,020	319,666	280,883	318,566	66,703

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2006	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2007
TRANSFERS FROM OTHER GOVERNMENTAL UNITS								
Passed Through the Sanilac Intermediate School District:								
Tech Prep	84.243A		\$ 425			\$ 425	\$ 425	-
P.L. 94-142 Flow-through (IDEA)	84.027	050450-0405	51,200			51,200	51,200	-
			51,625	-	-	51,625	51,625	-
TOTAL TRANSFERS FROM OTHER GOVERNMENTAL UNITS			51,625	-	-	51,625	51,625	-
U.S. DEPARTMENT OF AGRICULTURE:								
Passed through Michigan Dept. of Education:								
National School Lunch	10.555		166,704			166,704	166,704	-
National School Lunch Breakfast	10.553		45,101			45,101	45,101	-
Food Distribution Entitlement	10.550		25,239			23,772	23,772	-
			237,044	-	-	235,577	235,577	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE				-	-	235,577	235,577	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 939,756	\$ 29,020	\$ 319,666	\$ 568,085	\$ 605,768	\$ 66,703

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTES:

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of Brown City Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* and reconciles with the amounts presented in the basic financial statements.
2. ECIA Title I, CFDA #84.010, was audited as a major program representing 42.09% of federal expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditor's Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the basic financial statements:

General Fund	\$370,191
Special Revenue Fund	<u>235,577</u>
Subtotal	<u>\$605,768</u>

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)

84.010

Name of Federal Program or Cluster

ECIA Title I

Dollar threshold used to distinguish between type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section II – Financial Statement Findings

Findings considered material weaknesses:

Finding 2007-1

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

After considering the qualifications of the accounting personnel of Brown City Community School District, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the School District, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

Cause:

The staff of the district does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response:

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Section III – Federal Award Findings and Questioned Costs

None

BROWN CITY COMMUNITY SCHOOL DISTRICT, BROWN CITY, MICHIGAN
SCHEDULE OF PRIOR AUDIT FINDINGS

There were no prior year audit findings for the year ended June 30, 2006.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

September 7, 2007

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

To the Board of Education
Brown City Community School District
Brown City, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Brown City Community School District as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the school district's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

The following comments relate to certain of the school district's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered control deficiencies or material weaknesses as defined by professional standards.

IRS 403(b) Final Regulations

Intent

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

Effective Date

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

715 East Frank Street, Caro, MI 48723-1647 • 989/673-3137 • 800-234-8829 • Fax 989/673-3375

6261 Church Street, Cass City, MI 48726-1111 • 989/872-3730 • Fax 989/872-3978

E mail cpa@atbdcpa.com Website www.atbdcpa.com

Written Plan Document

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year-end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area that will continue to be emphasized is your internal controls.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation that can affect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

These rules are not applicable unless an election must be made. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for

future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 – 2009 school year.

We appreciate the opportunity to be of service to the school district. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward each year to continuing our relationship with Brown City Community School District. Should you wish to discuss any item included in this letter further, we would be happy to do so.

This communication is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Anderson, Tuckey, Bernhardt & Doran, P.C.".

Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants